THIRD QUARTER INTERIM REPORT
SEPTEMBER 30, 2010

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Corporate Profile

SaskEnergy Incorporated (SaskEnergy or the Corporation) has the legislated franchise for the distribution and transmission of natural gas within Saskatchewan. The distribution system delivers natural gas to over 347,000 residential, farm, commercial and industrial customers over a 67,000 kilometre pipeline distribution system. The transmission system provides transportation and storage services to the distribution utility, producers, marketers and large volume end-use customers within Saskatchewan.

SaskEnergy has six wholly owned subsidiaries:

- TransGas Limited – owns natural gas transportation and storage facilities;
- Many Islands Pipe Lines (Canada) Limited – transports natural gas to and from other jurisdictions and is regulated by the National Energy Board;
- Bayhurst Gas Limited – owns, produces and sells natural gas from storage-related assets and holds natural gas royalty interests. Bayhurst Energy Services Corporation is a wholly owned subsidiary of Bayhurst Gas Limited and operates as an energy services company;
- SaskEnergy International Incorporated – holds international equity investments;
- Swan Valley Gas Corporation – owns a natural gas distribution utility in the Swan Valley area of western Manitoba;
- Saskatchewan First Call Corporation – operates an underground infrastructure facility database through which subscribing companies are alerted of the need to perform line locates for landowners or contractors planning to excavate in Saskatchewan.

Vision

We create superior value through innovative energy solutions.

Mission

Our team of dedicated employees and business partners develops and delivers safe, reliable natural gas solutions that benefit our customers and Saskatchewan.

Values

Safety: We never compromise the safety of our employees and the public.

Community: We are leaders in developing a diverse workforce, supporting our communities and environmental stewardship.

Recognition: We take time to recognize the individual and team contributions of our employees.

Accountability: We are accountable for our decisions, our actions and the results.

Spirit: We create a positive, welcoming and enjoyable work environment that supports employees in achieving their career goals and life balance.

Communications: We have open, honest and respectful communication that builds strong relationships.

Integrity: We are honest, respectful and apply high ethical standards.

Management's Discussion and Analysis

The Management's Discussion and Analysis (MD&A) highlights the primary factors that affected the operations and financial results of SaskEnergy and its wholly owned subsidiaries for the nine month period ended September 30, 2010. The MD&A is as of November 15, 2010 and should be read in conjunction with the consolidated interim financial statements and accompanying notes. For additional information relative to its operations and financial position, refer to the Corporation's Annual Report for the year ended December 31, 2009.

The volume of natural gas distributed is sensitive to variations in the weather, particularly through the prime heating season of November to March. Additionally, changes in the fair value of financial and derivative instruments may cause significant fluctuations in net income given the volatility of natural gas prices. Therefore, the consolidated interim financial results should not be taken as indicative of the performance to be expected for the full year.

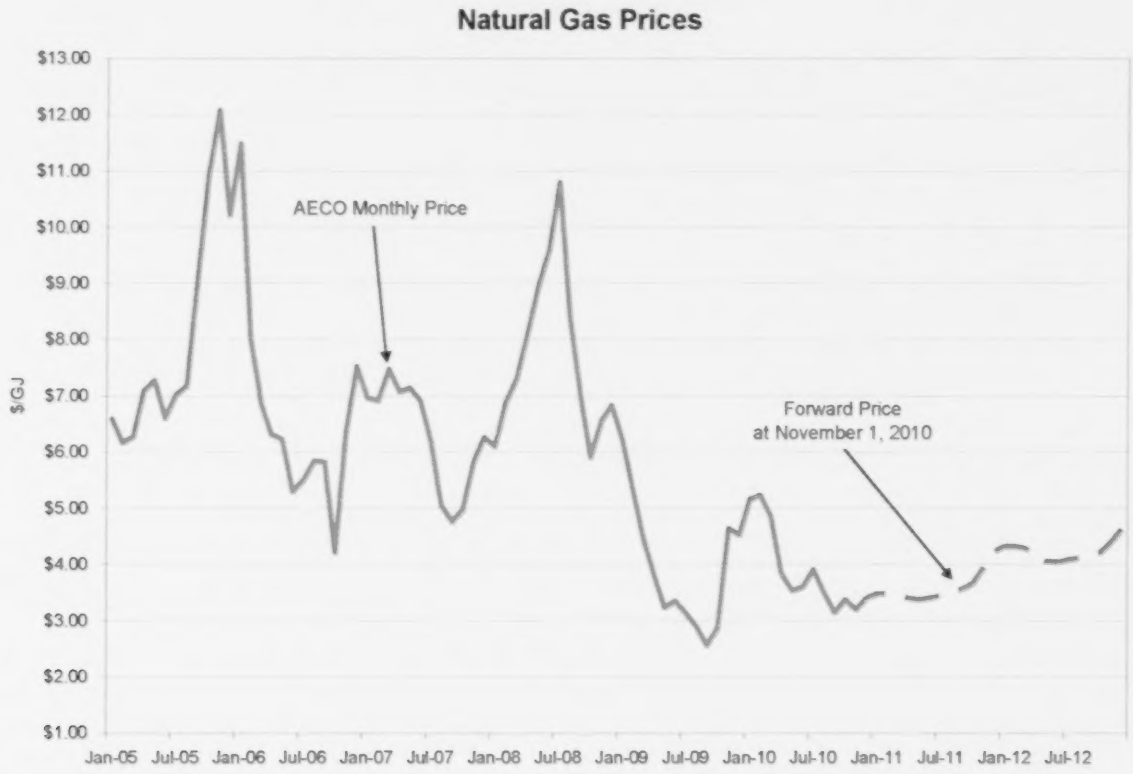
The following discussion contains certain forward-looking statements that are subject to inherent uncertainties and risks. The significant uncertainties and risks of the Corporation include natural gas price, winter weather, operational and regulatory. Consequently, actual results and events may vary significantly from those included in, contemplated or implied by such statements.

	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
Financial Highlights				
($ millions)				
Consolidated net income (loss)	(24)	13	14	42
Dividends	-	10	27	30
Capital expenditures	38	39	80	85
Total assets			1,592	1,532
Long-term debt			715	776
Debt ratio			65%	66%
Operating Highlights				
Distribution				
Volumes distributed - Petajoules	19	15	93	90
Weather - compared to the 30-year average			1% warmer	14% colder
Transmission				
Volumes transported - Petajoules	47	58	170	196
Peak day natural gas flows (winter) - Petajoules			1.07	1.18
Date of peak flow			January 7	January 24

Natural Gas Prices

Natural gas prices in Saskatchewan generally follow natural gas prices throughout North America. Natural gas producers continue to invest large amounts of capital drilling for natural gas from shale rock which has created excess supply in North America. With the global economy growing at a slower pace than expected, growth in demand for natural gas in the commercial and industrial sectors has been slow. Winter weather added some support to natural gas prices early in 2010; however, through most of the year, prices have been declining.

The following is a chart of AECO natural gas prices. AECO is the major natural gas hub in Canada and is located in Alberta. Natural gas in Saskatchewan is priced at a differential to the AECO price and is usually about $0.05 per Gigajoule (GJ) to $0.10 per GJ higher than AECO.



SaskEnergy's exposure to natural gas price risk occurs primarily because the Corporation purchases natural gas at variable market prices and resells it to utility customers at fixed rates. The risk of natural gas costs rising above the rate at which the natural gas is sold to utility customers is mitigated through the use of storage and a natural gas price risk management program. For rate-setting purposes, SaskEnergy accumulates differences between the cost of natural gas sold and its commodity rate in a Gas Cost Variance Account (GCVA). The balance in the GCVA, which is not recorded in the Corporation's financial statements, may be recovered from or refunded to customers in subsequent periods.

SaskEnergy applied to the Saskatchewan Rate Review Panel and received Cabinet approval to decrease its commodity rate from $5.21 per GJ to $4.55 per GJ effective November 1, 2010. This is the third commodity rate decrease in the last two years, and the new commodity rate is comparable to the rate that was in effect ten years ago. The new commodity rate reflects the balance of the GCVA as well as the cost of natural gas in storage, existing natural gas contracts and the anticipated forward market prices.

Consolidated Net Income (Loss)

	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
($ millions)				
Net income (loss) before the following:	(6)	(22)	29	23
Impact of fair value adjustments	(11)	17	4	22
Revaluation of natural gas in storage	(7)	18	(19)	(3)
Consolidated net income (loss)	(24)	13	14	42

Given the volatility of natural gas prices, the Corporation's financial results are subject to fluctuations. In order to compare financial performance from period to period, the Corporation uses net income before the impact of fair value adjustments and revaluation of natural gas in storage as these unrealized amounts are subject to considerable variation.

For the nine months ended September 30, 2010 consolidated net income was $14 million which was $28 million lower than the $42 million net income for the same period in 2009. The decrease was principally due to favourable fair value adjustments of $4 million in 2010 versus $22 million in 2009 and a downward revaluation of natural gas in storage of $19 million in 2010 compared to $3 million in 2009. However, net income before the impact of fair value adjustments and the revaluation of natural gas in storage was $29 million for the nine months ended September 30, 2010, $6 million higher than the $23 million for the same period in 2009. This increase was largely due to higher realized margins on gas marketing sales.

For the third quarter of 2010 SaskEnergy recorded a $24 million consolidated net loss compared to the $13 million consolidated net income for the third quarter of 2009. There were unfavourable fair value adjustments of $11 million and a downward revaluation of natural gas in storage of $7 million in the third quarter of 2010 compared to favourable fair value adjustments of $17 million and an upward revaluation of natural gas in storage of $18 million in the third quarter of 2009. Consequently, the net loss before the impact of fair value adjustments and the revaluation of natural gas in storage was $6 million and $22 million in the third quarter of 2010 and 2009 respectively.

Commodity Margin

	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
($ per GJ)				
Average commodity rate	5.21	5.96	5.21	7.50
Average cost of gas sold	7.94	12.18	5.33	7.67
($ millions)				
Realized margin on commodity sales	(12)	(23)	(7)	(7)
Impact of fair value adjustments	(22)	34	(40)	22
Margin on commodity sales	(34)	11	(47)	15

The margin on commodity sales is affected by the volume of natural gas sold, the difference between the effective commodity rate and the purchase price paid for the natural gas sold and the change in fair value of natural gas contracts.

During the first nine months of 2010 the weather was 1 per cent warmer than normal (normal determined by the 30-year average) compared to 14 per cent colder than normal during the same period in 2009. The warmer weather decreased the amount of natural gas consumed for space heating purposes by 4.3 Petajoules (PJ) compared to 2009.

During the first nine months of 2010, the average cost of natural gas of $5.33 per GJ was higher than the average commodity rate of $5.21 per GJ, resulting in a realized loss on commodity sales of $7 million before fair value adjustments. For the same period in 2009, there was also a realized loss on commodity sales of $7 million as the average cost of gas sold was $7.67 per GJ and the average commodity rate was $7.50 per GJ.

SaskEnergy utilizes a natural gas price risk management program to assist in managing the volatility of natural gas purchase prices so that the Corporation can deliver stable, competitive commodity rates to its customers. With purchase prices for natural gas often based on a floating index price, SaskEnergy may use natural gas contracts to effectively manage the future purchase price of natural gas. As financial and derivative instruments, these natural gas contracts are recorded at fair value on the Consolidated Statement of Financial Position. Between the time the natural gas contract is entered into and settled, changes in the fair value are recorded in the commodity cost of gas sold. For the nine month period ended September 30, 2010 unfavourable fair value adjustments increased the cost of gas sold by $40 million, resulting in a loss on commodity sales of $47 million. In 2009 favourable fair value adjustments of $22 million resulted in a margin on commodity sales of $15 million.

For the third quarter of 2010 SaskEnergy realized a $12 million loss on commodity sales before the impacts of fair value adjustments as the average cost of gas sold exceeded the commodity rate of $5.21 per GJ. In 2009, there was a realized loss on commodity sales of $23 million as the average cost of gas sold exceeded the commodity rate of $5.96 per GJ. Unfavourable fair value adjustments of $22 million for the third quarter of 2010 resulted in a loss on commodity sales of $34 million, while favourable fair value adjustments of $34 million for the third quarter of 2009 resulted in a margin on commodity sales of $11 million.

Gas Marketing Margin

	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
($ millions)				
Realized margin on gas marketing sales	16	13	35	20
Impact of fair value adjustments	10	(18)	42	(1)
	26	(5)	77	19
Revaluation of natural gas in storage	(7)	18	(19)	(3)
Margin on gas marketing sales	19	13	58	16

In order to maximize the utilization of its assets during off-peak periods, SaskEnergy purchases and sells natural gas in the open market to earn a margin. SaskEnergy also competes to supply natural gas to larger end-use customers in Saskatchewan through non-regulated contract sales. Higher margins on gas marketing transactions during the first nine months of 2010 resulted in a realized margin of $35 million compared to $20 million in 2009.

Given the volatility of market prices, gas marketing transactions are subject to natural gas price risk. Similar to the discussion related to the commodity margin, in order to manage natural gas price risk for its natural gas marketing activities, the Corporation may enter into natural gas contracts. These natural gas contracts are financial and derivative instruments and, as such, are recorded at fair value until the date of settlement. Changes in fair value are recorded in either gas marketing sales or gas marketing cost of gas sold, depending on the specific natural gas contract. For the period ended September 30, 2010 the margin from gas marketing activities was favourably impacted by fair value adjustments of $42 million, while there were unfavourable fair value adjustments of $1 million during the same period in 2009.

With the decline in natural gas market prices, the net realizable value for gas marketing natural gas in storage has fallen below cost. A downward revaluation of natural gas in storage of $19 million was recorded for the period

ended September 30, 2010. If natural gas prices rise in the future, SaskEnergy will record an upward revaluation to recognize the increase in net realizable value, up to a maximum of the original cost. Otherwise, the $19 million will result in improved margins in the future as contracts are settled by virtue of the lower carrying value of natural gas in storage. For the same period in 2009, there was a downward revaluation of natural gas in storage of $3 million.

After the impact of fair value adjustments and the revaluation of natural gas in storage, the margin on gas marketing sales was $58 million for the nine month period ended September 30, 2010. During the same period in 2009, the gas marketing margin after the impact of fair value adjustments and the revaluation of natural gas in storage was $16 million.

For the third quarter of 2010 the realized margin on gas marketing sales was $16 million which was further impacted by favourable fair value adjustments of $10 million and a downward revaluation of natural gas in storage of $7 million resulting in a margin on gas marketing sales of $19 million. The third quarter of 2009 reported a $13 million realized margin on gas marketing sales, unfavourable fair value adjustments of $18 million and an upward revaluation of natural gas in storage of $18 million resulting in a margin on gas marketing sales of $13 million.

Delivery Revenue

The majority of SaskEnergy's distribution customers consume natural gas for heating purposes and, as a result, the volume of natural gas distributed is sensitive to variations in weather, particularly through the November-to-March prime heating load season. The weather from January 1 to September 30, 2010 was 1 per cent warmer than normal while the same period in 2009 was 14 per cent colder than normal resulting in a 3.4 PJ decline in natural gas consumption. Effective January 14, 2010, SaskEnergy received approval for a delivery rate increase of $2.10 to the Basic Monthly Charge for residential customers and modest increases for other customer classes which offset the decline in natural gas consumption. Accordingly, delivery revenue of $126 million for the first nine months of 2010 was consistent with the same period in 2009.

Delivery revenue for the third quarter of 2010 was $27 million which was $3 million higher than the third quarter of 2009. Although volumes were slightly higher in the third quarter of 2010 when compared to 2009 given a colder September, the variance was mainly due to the delivery rate increase in 2010.

Transportation and Storage Revenue

Transportation and storage revenue for the first nine months of 2010 was $58 million which was $2 million below the same period in 2009. Similarly, transportation and storage revenue for the third quarter of 2010 was $19 million versus $20 million for the third quarter of 2009.

During 2010 there was a continued decline in receipt and export volumes as natural gas production in Saskatchewan continued to decline. However, there was an offsetting increase in deliveries to industrial customers within the Province for 2010.

Other Expenses

Operating and maintenance expense for the nine month period ended September 30, 2010 was $110 million which was $4 million higher when compared to the $106 million reported in the first nine months of 2009. Likewise, operating and maintenance expense for the third quarter of 2010 was $34 million versus $33 million for the third quarter of 2009. These increases were largely driven by an increase in construction activity in Saskatchewan. However, operating and maintenance expense for the nine month period was $4 million lower than anticipated in the Corporation's business plan as SaskEnergy continued to focus on operating efficiencies.

Interest, amortization and Saskatchewan taxes to the end of September 30, 2010 were $2 million lower than the same period in 2009. On a quarterly basis, interest, amortization and Saskatchewan taxes were $1 million lower in the third quarter of 2010 when compared to 2009. Lower interest expense on short- and long-term debt and higher debt retirement fund earnings were partially offset by higher amortization given a higher asset base in 2010.

	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
($ millions)				
Cash provided by (used in) operating activities	6	(13)	70	65
Cash used in investing activities	(30)	(25)	(55)	(55)
Cash provided by (used in) financing activities	24	38	(15)	(12)
Decrease in cash during the period	-	-	-	(2)

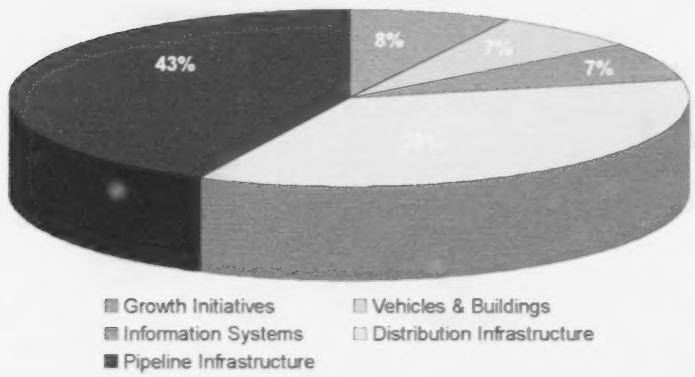
Cash from operations and debt borrowed from the Province of Saskatchewan's General Revenue Fund are the primary sources of liquidity and capital for SaskEnergy.

Cash provided by operating activities for the period ended September 30, 2010 was $70 million which was $5 million higher than the same period in 2009 mainly due to higher natural gas sales for gas marketing activities. Natural gas in storage held for resale increased $19 million from December 31, 2009 as SaskEnergy continued a strategy to purchase lower priced natural gas to increase storage levels. This additional natural gas in storage was purchased for gas marketing activities and will be held for resale in subsequent periods to generate additional margins and cash flow for the Corporation.

During the first nine months of 2010 cash used for investing activities was $55 million which was consistent with 2009. The Corporation invested $80 million in capital projects, before customer capital contributions, as follows:

Total Investment Activities

Nine Months Ended September 30, 2010



The majority of the investments made during the first nine months of 2010 maintain the integrity of SaskEnergy's extensive distribution and pipeline infrastructure to ensure safe and reliable service. For the nine months ended September 30, 2010 SaskEnergy connected over 3,200 new customers to its distribution system. Additionally, SaskEnergy invested $6 million in new business development opportunities within Saskatchewan.

For the period ended September 30, 2010 $15 million was used for financing activities, an increase of $3 million from 2009. The Corporation repaid $80 million in long-term debt that matured during 2010. Given moderately low interest rates on short-term debt, the Corporation increased short-term debt by $107 million rather than issue additional long-term debt. The Corporation was able to pay dividends to its parent, Crown Investments Corporation of Saskatchewan, of $48 million compared to the $26 million paid during the same period in 2009. Given relatively low debt balances, SaskEnergy met its debt ratio target of 65 per cent at the end of September 30, 2010.

SaskEnergy International Incorporated

SaskEnergy, through SaskEnergy International Incorporated (SEII), holds a 30 per cent equity interest in Gas Sur S.A. (Gas Sur), a natural gas distribution company that serves residential and commercial customers in Chile. SaskEnergy began its investment in Gas Sur in 1999.

On February 27, 2010 an 8.8 magnitude earthquake struck Chile. While Gas Sur experienced damages to parts of its distribution system, natural gas service was restored to most of Gas Sur's customers at a cost of approximately $4 million. In addition, during the nine month period ended September 30, 2010 Gas Sur recorded an asset write-down of $2 million. As at September 30, 2010 SaskEnergy's investment in Gas Sur was $16 million in the Consolidated Statement of Financial Position which includes SaskEnergy's share of the costs related to the earthquake and related asset write-down.

SaskEnergy, through SEII, also holds a 40.1 per cent equity investment in IGASAMEX USA Ltd. (Igasamex), a natural gas transportation company in Mexico. As at September 30, 2010 the carrying value of SaskEnergy's investment in Igasamex was $14 million. In accordance with the Provincial Government's Saskatchewan First Investment Policy, SaskEnergy continues to work towards a pragmatic exit strategy from its equity holdings in both Gas Sur and Igasamex.

Outlook

As the Saskatchewan economy continues to grow SaskEnergy expects continued strong demand for natural gas services. As the cleanest burning fossil fuel, the business and environmental benefits of natural gas will continue to make it the energy source of choice for many consumers. This expanding demand for natural gas is expected to result in continued growth for the well established distribution and transmission utilities. Opportunities beyond the Corporation's regulated utilities will further expand SaskEnergy's business within Saskatchewan and many of these opportunities, such as waste heat recovery, possess an environmental up-side as well. The Corporation anticipates additional margins from gas marketing activities as market opportunities become available.

With a solid financial position and a positive outlook for the future, the Corporation anticipates strong financial returns with a net income target of $54 million for 2010, consistent with the amount projected during second quarter. The target for annual net income excludes the impacts of fair value adjustments for financial and derivative instruments and revaluation of natural gas in storage as these adjustments are not known until the end of the fiscal year.

All internal costs are closely managed in an effort to minimize future rate adjustments for SaskEnergy's regulated businesses. The Corporation's operations will continue to focus on maintaining safe, reliable systems and high levels of customer service.

Future Accounting Changes - International Financial Reporting Standards (IFRSs)

Effective January 1, 2011, publicly accountable Canadian entities will be required to prepare financial information in accordance with IFRSs. The Public Sector Accounting Board has approved an amendment to the scope of public sector accounting standards. The amendment confirms that Government Business Enterprises, including SaskEnergy, will be required to follow IFRSs for periods beginning on or after January 1, 2011. This will allow for a comparison of similar entities in the public and private sector.

In addition, the Canadian Accounting Standards Board (AcSB) announced that it would defer mandatory adoption of IFRSs for qualifying entities with rate regulated activities. This includes many of the Corporation's peers in the natural gas distribution utility and pipeline industries. Under the AcSB's proposal such entities have the option to defer adoption of IFRSs until January 1, 2012 as the use of regulatory accounting is currently being reviewed by the International Accounting Standards Board, and any changes may significantly affect the IFRSs financial statements of rate regulated entities. SaskEnergy does not qualify for this deferral as it is not considered an independently regulated utility.

As part of the IFRSs conversion project, SaskEnergy developed a detailed IFRSs implementation plan. An external advisor was engaged to assist with project development and implementation. The advisor supported in performing a detailed review of major differences between current Canadian generally accepted accounting principles (Canadian GAAP) and IFRSs. SaskEnergy is in the final stages of determining its accounting policies

and the impact IFRSs will have on SaskEnergy's financial position, operational results and financial statement disclosures. In conjunction with evaluating the accounting standards, a review of the information technology and data systems' capability to provide the information required by IFRSs was performed. Modifications have been made to certain processes and systems to ensure transactions are recorded in accordance with IFRSs. Management and staff from SaskEnergy have participated in IFRSs training seminars. Board members have been briefed on IFRSs, participated in high level training and reviewed and approved project plans.

The Corporation is in the final stages of quantifying the January 1, 2010 (the Corporation's date of transition to IFRSs) opening balances under IFRSs. Senior management and the Board of Directors, through the Audit and Finance Committee, have approved our IFRSs accounting policies. However, IFRSs are evolving and may be different at the time of transition. SaskEnergy will continue to monitor and evaluate these changes. The Corporation currently expects IFRSs to impact our consolidated financial statements in the following key areas:

Accounting Difference	Canadian GAAP	IFRSs	Financial Statement Impact on the Date of Transition to IFRSs
Deemed Cost	The Corporation uses historical cost as the basis of measurement for all items of property, plant and equipment (PPE).	IFRS 1 *First-time Adoption of IFRSs* provides an optional election to use the fair value of an item of PPE as at the date of transition to IFRSs as its deemed cost.	The Corporation plans to apply the optional election to certain items of PPE. This change is expected to increase both PPE and retained earnings by $7 million.
Major Inspections	The Corporation recognizes the cost of the initial major inspection and overhaul in the carrying amount of PPE and amortizes that cost over the life of the related asset. Subsequent inspections and overhauls are expensed as incurred.	Under IAS 16 *PPE* the cost of all major inspections and overhauls are capitalized and depreciated over the period between inspections and overhauls. The carrying amount of the previous inspection or overhaul, if any, is derecognized.	This change is expected to decrease both PPE and retained earnings by $3 million.
Decommissioning Liabilities	The Corporation recognizes an asset retirement obligation when a legal obligation exists. Any decommissioning costs related to constructive obligations are expensed as incurred.	Under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* decommissioning liabilities are recognized when, as a result of a past event, there is a legal or constructive obligation. A constructive obligation exists where there is a valid expectation, based on past practice or published policies, that an entity will accept certain responsibilities. In addition, IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* requires specified changes in a decommissioning, restoration or similar liability to be added or deducted from the cost of the asset to which it relates. The adjusted depreciable amount of the asset is then depreciated prospectively over its remaining useful life. IFRS 1 provides an optional election which exempts an entity from retrospectively applying IFRIC 1.	The Corporation plans to apply the optional election and not retrospectively apply IFRIC 1. This change is expected to increase PPE by $1 million, increase asset retirement obligations by $8 million and decrease retained earnings by $7 million.

Accounting Difference	Canadian GAAP	IFRSs	Financial Statement Impact on the Date of Transition to IFRSs
Customer Capital Contributions	The Corporation includes customer capital contributions in PPE and amortizes these contributions on a straight-line basis over the estimated useful life of the related asset.	IFRIC 18 *Transfer of Assets from Customers* requires the Corporation to account for its customer capital contributions as revenue. If only one service is identified, the entity recognizes the revenue when the service is performed. If an ongoing service is identified, the revenue is recognized over the period specified by the agreement. If the agreement does not specify a period, the revenue is recognized over a period no longer than the useful life of the related asset.	The Corporation continues to analyze IFRIC 18 in relation to its customer capital contributions. Therefore, the impact on the date of transition to IFRSs, which could be significant, has not yet been determined. Customer contributions at the date of transition to IFRSs were $208 million.
Cumulative Translation Differences	On translation of a foreign operation certain exchange differences are recognized in accumulated other comprehensive income. On subsequent disposal of the foreign operation, the accumulated translation differences related to the foreign operations are recognized in net income for the period as part of the gain or loss on disposal.	Similar to Canadian GAAP, IAS 21 *The Effects of Changes in Foreign Exchange Rates* requires certain exchange differences on translation of a foreign operation to be recognized as a separate component of equity that is recognized in net income as part of the gain or loss on disposal. IFRS 1 permits an optional election which exempts and entity from retrospectively applying IAS 21. Any translation difference calculated under Canadian GAAP is reset to zero at the date of transition to IFRSs.	The Corporation plans to apply the optional election and not retrospectively apply IAS 21. This change is expected to increase accumulated other comprehensive loss by $4 million increase and decrease retained earnings by $4 million.

For additional information related to these future changes in accounting policies, refer to Note 1 of the consolidated interim financial statements.

SASKENERGY INCORPORATED

Consolidated Statement of Financial Position

(millions)

	As at September 30, 2010 (unaudited)	As at December 31, 2009 (audited)
Assets		
Current assets		
Accounts receivable	$ 57	$ 113
Natural gas in storage held for resale (Note 2)	277	258
Inventories of supplies	9	9
Debt retirement funds	-	9
Fair value of derivative instruments (Note 3)	87	52
	430	441
Intangible assets	16	15
Property, plant and equipment	1,025	1,004
Natural gas in storage held for resale and operations (Note 2)	34	34
Debt retirement funds	57	48
Investments	30	30
	$ 1,592	$ 1,572
Liabilities and Province of Saskatchewan's Equity		
Current liabilities		
Bank indebtedness	$ 2	$ 1
Short-term debt	215	108
Accounts payable	118	126
Dividends payable	-	21
Current portion of long-term debt	-	80
Fair value of derivative instruments (Note 3)	72	38
	407	374
Asset retirement obligations	8	8
Long-term debt	715	715
	1,130	1,097
Province of Saskatchewan's equity		
Retained earnings	393	406
Accumulated other comprehensive loss	(3)	(3)
	390	403
Equity advances	72	72
	462	475
	$ 1,592	$ 1,572

Commitments and contingencies (Note 5)

(See accompanying notes)

SASKENERGY INCORPORATED

Consolidated Statement of Income (Loss) and Retained Earnings

(millions)
(unaudited)

	Three months ended September 30		Nine months ended September 30	
	2010	**2009**	**2010**	**2009**
Revenue				
Commodity sales	**$ 21**	$ 27	**$ 182**	$ 337
Gas marketing sales	**157**	116	**346**	334
Delivery	**27**	24	**126**	126
Transportation and storage	**19**	20	**58**	60
Revenue collected for municipalities	**2**	1	**14**	18
Other	**4**	3	**7**	7
	230	191	**733**	882
Expenses				
Commodity cost of gas sold	**55**	16	**229**	322
Gas marketing cost of gas sold	**138**	103	**288**	318
Operating and maintenance	**34**	33	**110**	106
Interest	**8**	10	**27**	32
Amortization	**14**	14	**44**	42
Payment to municipalities	**2**	1	**14**	18
Saskatchewan taxes	**3**	2	**7**	6
	254	179	**719**	844
Net income (loss) from continuing operations	**(24)**	12	**14**	38
Net income from discontinued operations	**-**	1	**-**	4
Net income (loss)	**(24)**	13	**14**	42
Retained earnings, beginning of period	**417**	373	**406**	364
Dividends	**-**	(10)	**(27)**	(30)
Retained earnings, end of period	**$ 393**	$ 376	**$ 393**	$ 376

(See accompanying notes)

SASKENERGY INCORPORATED

Consolidated Statement of Comprehensive Income (Loss)

(millions)
(unaudited)

	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
Net income (loss)	$ (24)	$ 13	$ 14	$ 42
Other comprehensive income (loss)				
Unrealized gains (losses) on translating financial statements of self-sustaining foreign operations	1	(3)	-	(1)
Comprehensive income (loss)	$ (23)	$ 10	$ 14	$ 41

SASKENERGY INCORPORATED

Consolidated Statement of Accumulated Other Comprehensive Loss

(millions)
(unaudited)

	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
Accumulated other comprehensive loss, beginning of period	$ (4)	$ (1)	$ (3)	$ (3)
Other comprehensive income (loss)	1	(3)	-	(1)
Accumulated other comprehensive loss, end of period	$ (3)	$ (4)	$ (3)	$ (4)

(See accompanying notes)

SASKENERGY INCORPORATED

Consolidated Statement of Cash Flows

(millions)

(unaudited)

	Three months ended September 30		Nine months ended September 30	
	2010	**2009**	**2010**	**2009**
Operating Activities				
Net income (loss)	**$ (24)**	$ 13	**$ 14**	$ 42
Add (deduct) items not affecting cash (Note 4)	**31**	(26)	**57**	16
Net change in non-cash working capital related to operations	**(1)**	3	**(1)**	11
Cash provided by (used in) continuing operations	**6**	(10)	**70**	69
Cash provided by (used in) discontinued operations	**-**	(3)	**-**	(4)
Cash provided by (used in) operating activities	**6**	(13)	**70**	65
Investing Activities				
Additions to property, plant and equipment	**(35)**	(39)	**(75)**	(85)
Capital contributions and deposits received	**8**	14	**25**	30
Additions to intangible assets	**(3)**	-	**(5)**	-
Cash used in investing activities	**(30)**	(25)	**(55)**	(55)
Financing Activities				
Increase in bank indebtedness	**1**	-	**1**	-
Increase (decrease) in short-term debt	**107**	61	**107**	(4)
Proceeds from long-term debt	**-**	-	**-**	50
Repayments of long-term debt	**(80)**	(15)	**(80)**	(26)
Debt retirement fund installments	**(2)**	(3)	**(5)**	(6)
Debt retirement fund redemptions	**10**	-	**10**	-
Dividends paid	**(12)**	(5)	**(48)**	(26)
Cash provided by (used in) by financing activities	**24**	38	**(15)**	(12)
Decrease in cash during the period	**-**	-	**-**	(2)
Cash position, beginning of period	**-**	2	**-**	4
Cash position, end of period (Note 4)	**$ -**	$ 2	**$ -**	$ 2

(See accompanying notes)

SaskEnergy Incorporated
Notes to the Consolidated Financial Statements
September 30, 2010

Unaudited

1. Accounting Policies

SaskEnergy Incorporated (SaskEnergy or the Corporation) prepares its consolidated interim financial statements in accordance with Canadian generally accepted accounting principles (Canadian GAAP). The disclosures do not conform in all respects to the requirements for annual financial statements. The consolidated interim financial statements follow the same accounting policies and methods of computation as the consolidated financial statements for the year ended December 31, 2009.

These consolidated interim financial statements, which are unaudited, should be read in conjunction with the consolidated financial statements for the year ended December 31, 2009 and have been prepared from the records of the Corporation. The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods.

The consolidated interim financial statements should not be taken as indicative of the performance to be expected for the full year due to the seasonal nature of the natural gas utility business in Saskatchewan.

a. Future accounting policy changes

The Canadian Institute of Chartered Accountants (CICA) has issued several new Handbook Sections: Section 1582 – Business Combinations, Section 1601 – Consolidated Financial Statements and Section 1602 – Non-Controlling Interests for fiscal years beginning on or after January 1, 2011. These sections replace existing Handbook Sections 1581 and 1600 and establish standards for the accounting for business combinations, preparation of consolidated financial statements and accounting for a non-controlling interest in a subsidiary. The Corporation is evaluating the potential impacts of these accounting recommendations and does not anticipate a significant impact on the Corporation's financial statements.

The CICA has announced that publicly accountable Canadian entities will be required to prepare financial information in accordance with International Financial Reporting Standards (IFRSs) effective January 1, 2011. Although IFRSs are a principle-based set of standards, similar to Canadian GAAP, there are areas where the accounting treatment differs from Canadian GAAP. The Corporation will publish its first consolidated financial statements prepared in accordance with IFRSs for the quarter ending March 31, 2011, along with comparative figures. The Corporation will also provide an opening balance sheet as at January 1, 2010, the date of transition to IFRSs.

2. Natural Gas in Storage Held for Resale and Operations

For the nine months ended September 30, 2010 $408 million of natural gas in storage held for resale (2009 - $565 million) was recognized as cost of gas sold. With the decline in natural gas market prices, the net realizable value of gas marketing natural gas in storage has fallen below cost. For the nine months ended September 30, 2010 there was a $19 million write-down of natural gas in storage held for resale to its net realizable included in gas marketing cost of gas sold (2009 - $3 million). If natural gas prices rise in the future, there will be a reversal of the write-down. There was no reversal of any prior year write-down during the period.

3. Financial Instruments and Risk Management

a. Financial instruments

The fair value of the Corporation's financial instruments is listed below:

	September 30, 2010		December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(millions)			
Other liabilities				
Long-term debt	**$ 715**	**$ 806**	$ 795	$ 889
Held-for-trading				
Debt retirement funds	**57**	**57**	57	57

The fair value of the above instruments was based on the following:

i. Long-term debt – The present value of future cash flows discounted at the market rate of interest for the equivalent Province of Saskatchewan debt instruments.

ii. Debt retirement funds – The fair value of the investments held in the debt retirement fund is determined by Saskatchewan's Ministry of Finance using information provided by investment dealers. To the extent possible, valuations reflect indicative secondary pricing for these securities. In all other circumstances, valuations are determined with reference to similar actively traded instruments.

The fair value of other financial instruments, including cash, accounts receivable, bank indebtedness, short-term debt, accounts payable and dividends payable approximate their carrying values due to the short-term nature of the instruments.

b. Natural gas derivative instruments

At September 30, 2010, all derivative assets and liabilities held-for-trading are recorded on the consolidated statement of financial position at fair value. The fair value of natural gas derivative instruments held-for-trading, with the exception of natural gas price options, is calculated daily and is based on quoted market prices. The Corporation obtains information from sources such as the New York Mercantile Exchange, the Natural Gas Exchange, independent price publications and over-the-counter broker quotes. The fair value of natural gas price options is determined using the Garman-Kohlhagen model which requires the use of various assumptions, including quoted market prices, interest rates and volatility estimates for forward natural gas prices which are each based on external market sources.

For physical natural gas contracts, notional values are an approximation of future net cash flows based on contract price multiplied by contract quantity. For other derivative instruments, the notional value is the difference between the contract price and the market price. SaskEnergy has sufficient borrowing capacity to fund these contractual obligations. Where contract prices are referenced to an index price that has not yet been fixed, the market price at September 30, 2010 has been used to estimate the contract price.

3. Financial Instruments and Risk Management (continued)

As at September 30, 2010, natural gas derivative instruments held-for-trading had the following fair values, notional values and maturities:

	2010	2011	2012	2013	2014	There-after	Total
				(millions)			
Physical natural gas contracts							
Fair value	$ -	$ 5	$ 1	$ 1	$ 2	$ -	$ 9
Notional value	(12)	40	11	2	17	2	60
Natural gas price swaps							
Fair value	(4)	(18)	(18)	41	3	2	6
Notional value	(4)	(18)	(18)	42	3	2	7
Total							
Fair value	$ (4)	$ (13)	$ (17)	$ 42	$ 5	$ 2	$ 15
Notional value	$ (16)	$ 22	$ (7)	$ 44	$ 20	$ 4	$ 67

Fair value - increase (decrease)
Notional value - estimated net cash inflow (outflow)

c. Changes in fair value

The fair value of derivative instruments is presented on the consolidated statement of financial position as follows:

	September 30, 2010	December 31, 2009
	(millions)	
Fair value of derivative instrument assets	$ 87	$ 52
Fair value of derivative instrument liabilities	(72)	(38)
	$ 15	$ 14

3. Financial Instruments and Risk Management (continued)

The change in fair value of financial and derivative instruments is recorded in net income within the relevant revenue or expense category. For the nine months ended September 30 the increase (decrease) in net income of these unrealized gains and losses was as follows:

	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
	(millions)			
Derivative instruments				
Gas marketing sales	$ 12	$ (36)	$ 41	$ (3)
Commodity cost of gas sold	(22)	34	(40)	22
Gas marketing cost of gas sold	(2)	18	1	2
	(12)	16	2	21
Financial instruments				
Interest expense	1	1	2	1
	$ (11)	$ 17	$ 4	$ 22

d. Risk management

The Corporation uses various derivative financial instruments to manage the risks associated with its operating exposures to fluctuations in foreign currency exchange rates, interest rates and the price of natural gas. A Corporate Derivatives Policy and specific risk management strategies establish the guidelines within which such derivative financial instruments may be used.

i. Natural gas price risk

The Corporation may manage the risk associated with the purchase and sale price of natural gas. The purchase or sale price of natural gas may be fixed within the contract or referenced to a floating index price. When the price is referenced to a floating index price, natural gas derivative instruments may be used to fix the settlement amount. The types of natural gas derivative instruments SaskEnergy may use for price risk management include natural gas price swaps, options, swaptions and futures contracts.

Based on the Corporation's September 30, 2010 closing positions, an increase of $1.00 per Gigajoule in natural gas prices would have increased net income, through an increase in the fair value of natural gas contracts, by $26 million. Conversely, a decrease of $1.00 per Gigajoule would have decreased net income, through a decrease in the fair value of natural gas contracts, by $26 million.

ii. Credit risk

The Corporation is exposed to credit risk through cash, accounts receivable, debt retirement funds and derivative instrument assets. Credit risk related to cash and debt retirement funds is minimized by dealing with institutions that have strong credit ratings and holding highly-rated financial securities.

3. Financial Instruments and Risk Management (continued)

The Corporation extends credit to its customers in the normal course of business and is at risk of loss in the event of non-performance by counterparties on certain derivative instruments. To reduce its credit risk, SaskEnergy has established policies and procedures to monitor and limit the amount of credit extended to its customers and counterparties and may require letters of credit and other forms of security. At September 30, 2010 the maximum credit exposure to a single counterparty was $23 million (December 31, 2009 - $14 million).

The carrying amount of financial and derivative assets represents the maximum credit exposure as follows:

	September 30, 2010	December 31, 2009
	(millions)	
Accounts receivable	$ 57	$ 113
Debt retirement funds	57	57
Fair value of derivative instrument assets	87	52
	$ 201	$ 222

4. Supplementary Cash Flow Information

a. Cash position

	September 30, 2010	September 30, 2009
	(millions)	
Cash from continuing operations	$ -	$ -
Cash from discontinued operations	-	2
	$ -	$ 2

4. Supplementary Cash Flow Information (continued)

b. Items not affecting cash from operations

	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
	(millions)			
Amortization	$ 14	$ 14	$ 44	$ 42
Write-down of natural gas in storage held for resale	7	(18)	19	3
Change in fair value of derivative instruments	13	(17)	(1)	(21)
Debt retirement funds earnings	(1)	(1)	(3)	(2)
Change in fair value of debt retirement funds	(1)	(1)	(2)	(1)
Equity earnings	(1)	(1)	-	(1)
Net income from discontinued operations	-	(1)	-	(4)
Other	-	(1)	-	-
	$ 31	$ (26)	$ 57	$ 16

5. Commitments and Contingencies

In April 2010, the Corporation was charged under Saskatchewan's Occupational Health and Safety Act and Regulations in relation to a natural gas explosion that occurred April 18, 2008 in Nipawin, Saskatchewan. On October 13, 2010, the Corporation entered not guilty pleas to all charges. The Corporation has also been named a defendant in a number of civil actions related to this incident. The Corporation has denied liability on all claims. The civil actions remain at an early stage, but the Corporation does not expect the outcome of these civil actions to result in any material financial impact.

6. Comparative Figures

Certain of the prior period's figures have been reclassified to conform to the current period's presentation.